Paper Money Facts

By Paul Stevens

***The third in a series from* Mercury's *famed book,* Money Made Mysterious**

THE SOUNDEST possible money is printing press money. However, this is true only if it has no intrinsic value in itself, and its creation and quantity is restricted to a constant per capita population figure.

For many years the American Colonies had paper money. They prospered as no people had ever prospered in the history of the world. Issuing their own money, carefully limiting its issue to the production needs in each separate community and charging no interest on the issued money, the Colonies were wealthy and happy. The private interests who controlled the Bank of England determined to dominate the Colonies by forbidding them the use of their own printing press money and by forcing them to use the Bank of England's *interest-bearing money*.

The following strike brought on the War of Independence.

After the ratification of the Constitution of the United States of America, Alexander Hamilton succeeded in creating a private "Bank of the United States," modelled after the privately-owned Bank of England and the money slavery began all over again. There were intermittent periods of "money freedom" after that, the most notable following President Andrew Jackson's reign. But creation of the Federal Reserve Banking System on December 23, 1913 led to the complete enslavement of the American economy. It prepared us for the "planned" New Deal Era.

Our Two Kinds of "Money"

Disregarding our metal coins which are required to "make change," America has two kinds of "money." About five percent of our "money" is actual private banker printing press money. It's the "green stuff" you carry in your wallet or purse. Properly regulated in a constant ratio to the nation's total population and issued into circulation free by our government, when paying its own bills it would be sound money.

The amount of money in the U.S.A. is now dictated, not by Congress, but by the Federal Reserve System, a privately owned banking complex now under the complete domination of the Executive Branch of the Federal Government.

How Bankers Create Money

Our "money" is composed of a relatively small amount of "currency" and a much greater amount of "money substitute" in the form of bankers' *promises to pay money*—viz. "bank deposits." In the United States, the bulk of all business transactions are settled by exchanging ownership of bank deposits by means of checks drawn by debtors in favor of their creditors. Consequently, for practical purposes the nation's total "Money Quantity" is the total of all bank deposits in all banks of the country, plus the currency in circulation outside of banks.

Since the state and national banks, as well as the Federal Reserve Banks, all operate on a "fractional reserve"

basis, it will be helpful for an understanding of how "money supply" is increased and decreased *(in the absence of control over money by Congress as the Constitution specifically provides!)* if we take a look at the way the "money accordion" is alternately pulled and squeezed by those in whose private hands that power is held.

Lest we be accused of "spinning a yarn" on this subject, we take the liberty of quoting directly from a report of the Committee on Economic Policy, United States Chamber of Commerce, published in 1951 and titled, *"The Economics of the Money Supply," page 6: We quote: "Before the invention of deposit (paper) money, gold and other metals were the accepted medium of exchange. Throughout much of the history of civilization it was necessary for persons transacting business to keep a supply of coin or bullion on hand. This was hazardous, as well as inconvenient; and in the later Middle Ages it became common for persons owning gold to deposit it with the local goldsmiths for safekeeping. The goldsmith gave the depositor a receipt for his gold.*

"It was not long before the depositors found that it was unnecessary to draw out the gold each time they had a payment to make. It became customary for buyers and sellers to consider the gold receipt "as good as gold," and the receipts became a primitive form of paper money.

"In time, the goldsmiths discovered that, normally, they might expect withdrawals of gold by the owners to amount to only a fraction of the total gold on deposit. It was possible for a goldsmith, then, to lend out a substantial proportion of the deposited gold, which he did not own, but for which he could get interest, keeping on hand enough gold "reserve" to cover the demands that he might normally expect the owners of the gold to make on him.

"In this way a system of money based on fractional reserves came into being—that is, gold reserves amounting to only a fraction of the note issue based on them.

(Factually, Nimrod's religious-bankers discovered this banker's secret in 2400 B. C.; and Nebuchadnezzar's "Gold Standard" was based on the secret in 600 B. C.; and the "magic reserve" was calculated at ten percent of the gold deposited. So the goldsmiths of the Middle Ages were not the first to learn about "fractional reserves." But we have no argument with the Chamber of Commerce Committee's version of the story, since it deals with "modern" banking practices.)

But, keeping our story as simple as possible, let's see how bankers "create" money:

Let us assume that our bank has total deposits of a million dollars, has kept a fractional reserve of 20 percent of total deposits and has made use of 80 percent of the depositors' money to negotiate profitable interest-earning loans and investments. The bank's balance sheet would look like this:

Total Deposits	1,000,000.00
Loans and Investments	800,000.00
Currency	200,000.00

From the above you can see that an individual bank holding "real money" (currency) in the amount of only $200,000.00 can incur "deposit liabilities" of $1,000,000.00 if it can get along on a 20 percent fractional reserve basis. That would give the bank the use of $800,000.00. But, if instead of holding the $200,000.00 as currency on hand, that same amount is kept on deposit in the bank's "reserve account" at a Federal Reserve Bank the results are in some ways the same, but with this enormous *difference:* Whereas a single bank operating on a 20 percent cash reserve basis can loan or invest no more than $800,000.00 out of $1,000,000.00 of deposits through the op-

erations of the Federal Reserve Banking system $200,000.00 of reserves deposited by a bank can result in creation of $5,000,000.00 of "deposit liabilities" in the banking system as a whole! That is, the Federal Reserve System enables the *compounding of deposit liabilities* of fractional reserve banks who belong to the System. It enables the "debt money" (which is what these bank deposits are) to be increased to many times the amount that would be possible for an individual bank, if it were not a part of the debt-money creating fractional reserve central banking apparatus.

A book, *The Federal Reserve System—Purposes and Functions*, put out in 1954 by the Board of Governors of the System explains this compound "debt-money" creation on pages 22, 23 and 24 in this language:

> "The fact that individual member banks are required to hold only a fraction of their deposits as reserves makes it possible for additional reserve funds, as they are deposited and invested through the banking system as a whole, to generate deposits on a multiple basis. The table illustrates how deposit balances are built up as reserve funds and diffused throughout the banking system. The process may be sketched as follows: a member bank at which $100 is deposited needs to hold $20 in reserves at the Reserve Bank. The remaining $80 can be lent. This money may be paid out at once by the borrower to someone who deposits it in another bank. The second bank needs to hold $16 as reserve against the new deposit of $80 and can lend the remaining $64. Similarly, the borrower here may draw down the newly created deposit at once, but the funds will merely be shifted to a third bank, which in turn can lend 80 percent of $64 and add $51.20 *to* its deposits. The sequence can be traced through many banks until $500 of demand deposits have grown out of the original $100 deposit. On the asset side of their books, the banks hold $100 in reserves (20 percent of $500) and $400 in loan or investment paper."

Arbitrary Manipulation

With the treacherous fractional reserve banking fallacy installed and operated at a "geared-up" ratio—as the Federal Reserve Act provides—the individuals who control Federal Reserve policy can arbitrarily make money "tight" or "easy" as suits their wishes.

The Man-in-the-Moon has as much voice in this nation's money system as our Congress, ever since that body was stampeded in 1913 by Woodrow Wilson and company into delegating its Constitutional prerogative of money issue to politicians who kowtow to the European manipulators.

"Easy Money" can be brought about in a variety of ways. For one: the United States Treasury can be *persuaded to increase deposits* in the Member Banks by transferring government deposits from Federal Reserve Banks over to the privately owned banks. Or the Federal Reserve Board can cut "Reserve Requirements" below the 20 percent (used here for illustration) and may also cut the "Discount Rate" and thus make it more profitable for the member banks to increase their deposits by buying more investments or making more loans. The banks, of course, don't "invest" or "loan" *real money* at all. They simply credit the checking account of the borrower or the seller of the investments. No actual money is involved; the bankers just "create" the increased amount of "deposits" by the stroke of a pen.

In the quotation from the Board of Governors' book which we just cited, you will note that these words were used: ". . . a borrower is likely to use *the demand deposit created by his loan to write checks . . .*" (Emphasis add-

ed). *The Board makes no pretense that our bankers ARE NOT "MONEY CREATORS"!*

Slight increases in deposits in the banking system sometimes result from actual new deposits in one bank which do not represent a like withdrawal from some other bank. On a whole, however, these additions are not of great volume in any single year.

By far the greatest change in the volume of bank deposits is the result of changes made by the Federal Reserve Board in Reserve Requirements. We have just seen how $100 of reserves can be "parlayed" into $500 of demand deposits in the Federal Reserve Banking System when reserve requirements are set at 20 percent.

Let us next suppose the Federal Reserve Board *really* wants to see more debt-money created at quick-time (or, in the jargon of fractional reserve bankers, wants an "easing of credit"). By the Board's cutting required reserves from 20 to 10 percent of demand deposits of member banks, reserves of $1,000 can "legitimize", if we may be pardoned for such abuse of the word, deposit liabilities of $15,000 instead of the $10,000 figure at 20 percent reserve requirement.

If there were any great quantity of "real money" in circulation outside of banks it would be interesting to imagine an exercise in the theoretical consequences of the impact on the economy of such currency finding its way into deposits in banks. However, as facts now stand, the total of all deposits in all banks in the United States, plus currency in circulation outside of banks is $213 billion (December 1956). Of that total $186.7 billion (Dec. 1956) represents the "debt-money" deposit liabilities of the banking system. The total loans and investments of the banking system are $192.5 billion (Dec. 1956). So, if all indebtedness owing to the banking system were paid off by the debtors, bank deposits would be cut to a theoretical figure of *minus* six billion dollars.

Money Rental Prohibited

Let it never be forgotten that the Christian and Moslem religions have prohibited the rental of money (interest on money). It was formerly called "usury." For 1,500 years after Christ's ministry on earth, Christians abided by the Holy Writ, and they were prohibited from money rental or interest lending. It was a sin. The Christian and Moslem doctrine concerning the wrong of debt and usury must be re-established.

Even more important, if indeed anything can be, is that *debt money* must be abolished; and the Constitutional prerogative over the nation's money system must be restored to CONGRESS whence it was kidnapped by aliens nearly 50 years ago.

In its August 1957 issue, THE AMERICAN MERCURY illustrated that point by printing a table condensed from the book "The Reserve Banks and the Money Market." (Harper & Bros., New York), by W. Randolph Burgess, an officer of the First National City Bank of New York, former Under Secretary of the Treasury in the Eisenhower Administration. The table showed how $10,000 of bank credit may be built on $1,000 of reserves.

MERCURY then asked a cogent question; and gave a *right answer*:

> QUESTION: Can anyone tell us why the nine old black-gowned Justices of the U.S. Supreme Court have failed to nullify and outlaw the "Federal Reserve Act?"
>
> ANSWER: These "Money Creators" are too powerful!

Or, could the answer be that no one has ever had the courage to DEMAND that the Court rule on this crucial question?

(*To be continued*)